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## THE MARKET FOR LOCOMOTIVES

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During the summer of 1907, there were plenty of indications of the approaching financial storm, which, during the following autumn, swept over the country and affected the greater part of the civilized world. Manufacturers who, in obedience to the imperative law of demand, had been enlarging their plants, had generally completed the extensions and were waiting to realize the profits to be derived from operations upon the larger scale. For several years most manufacturers had been working under the inconvenience caused by simultaneous pressure of orders and disturbance incident to reconstruction. This is always costly, and it was reasonable to suppose that the reconstruction being over, a breathing spell would follow when business could be systematized, and enlarged profits reaped. These hopes, however, were not realized. Notwithstanding large investments in labor-saving machinery and improved appliances, the costs of labor and administration constantly mounted higher, so that when the accounting was reached, profits were found to be lower rather than higher. Many manufacturers discovered that the largest gross business ever done in one year, had produced little more if as much net profit as had been realized in lean years. This may partly be explained by the extraordinary advance in the rates of interest charged by lenders for the use of money, which was due to the fact that the expansion, both of legitimate business and of speculation, had become so great as to demand more than the world's available capital. The wages of labor continued to advance because the cost of living constantly increased, and, the two being interdependent, the cost of living advanced because wages form an important part of the cost of every necessary of life. There appeared to be no end to the operation of this tendency, except eventual panic. Furthermore, there was great cause for concern in the adverse public opinion, reflected in the hostile attitude of legislatures towards the railroads. This manifested itself in the passage of numerous laws increasing the taxa-

tion of railroads, limiting fares, and interfering with the discretion of railroad managers in the administration of their properties. That much of this legislation was clearly unconstitutional, and must surely be set aside by the courts, scarcely checked the lawmakers. The national administration not only shared this hostility, but set the example to the states.

The prosperity which the country was enjoying had such momentum that it was some time before these powerful causes produced their inevitable results. The railroads stopped work wherever possible on track construction or improvements, and made few contracts for new equipment. Locomotive car builders and other manufacturers ceased placing orders for machine tools. Whilst this was the condition of affairs, the confiscatory decision of Judge Landis was rendered against the Standard Oil Company. This was interpreted at home and abroad as an indication, subject of course to further legal developments, that the money of investors in the securities of large corporations no longer enjoyed the traditional protection of the courts, and that judicial decisions affecting corporations, were to be based upon a presumption of guilt rather than of innocence.

The result of these several causes was that by the beginning of 1908, makers of railway equipment, who had been exhausting their ingenuity to increase production, found themselves without orders. The building-up process had to be reversed, organizations had to be reduced, and the severest economies had to be inaugurated. The rapidity with which this occurred, is shown by the following figures which represent the percentages of the monthly payroll of one of the largest single establishments engaged in the manufacture of railway material:

	Per cent.
October, 1907 .....	100
November, 1907 .....	91
December, 1907 .....	92
January, 1908 .....	56
February, 1908 .....	22
March, 1908 .....	24
April, 1908 .....	20
May, 1908 .....	15

The number of employees fell in like ratio, from 100 per cent in September, to 95 per cent in October, 90 per cent in November, (548)

81 per cent in December, 70 per cent in January, 43 per cent in February, 32 per cent in March, 25 per cent in April. Nor did even this rapid decrease in the number employed, fully represent the stringency of the situation, for the average earnings per man weekly, fell from \$14.22 in November to \$8.40 in May. Taking the average of monthly sales during 1907 as 100 per cent, the business of the whole year 1908 averaged but 19½ per cent, that of the first three months of 1909, 25 per cent, and that of the second three months of 1909, 24¾ per cent. This prostration affected to pretty much the same degree, every branch of manufacture dependent solely upon railways, and there were few which did not suffer a reduction of business ranging from fifty to seventy-five per cent. The past two years have therefore been years of great hardship to all industries dependent upon railway business, and fortunate indeed have been the concerns which have succeeded in showing any balance, however small, upon the profit side of their ledgers.

Amongst the causes which contributed to the depression, were the approaching presidential election of 1908, and the declaration of both the great political parties in favor of a revision of the tariff. The election of President Taft removed one disturbing element, and the general belief in his ability and conservatism, was an active element in the restoration of confidence. The long and painful deliberations of Congress over tariff revision during the spring and summer of the present year, not only depressed business, but effectually convinced the country that a more scientific method of tariff building should be found. When the tariff bill was finally passed, the effect was immediately felt. The railways began placing contracts for locomotives, cars and rails. No doubt the promise of abundant crops had much to do with this. Nevertheless, however great the need for equipment may have been, and however little it was really affected by tariff legislation, the railroads did not begin to place contracts until the tariff question had been settled. The idle cars which, at the beginning of 1908, had exceeded 400,000, have now practically disappeared, those remaining being fully accounted for by the fact that there may always be an excess of cars of particular types, notwithstanding that there may be a scarcity of other types, and also by the fact that the statistics include cars of obsolete pattern awaiting sale or demolition. The car surplus, which for two years has been one of the gauges of business depression,

is therefore at an end, whilst the large contracts for cars which have been placed, indicate conclusively that the railroads are now guarding against the possibility of a future shortage.

Simultaneously with the increase of railroad traffic and the consequent disappearance of the car shortage, rates for bank loans began to stiffen, and from three and a half per cent for gilt-edge paper, rates have advanced to from five to six per cent, according to the grade of credit of the borrower. This is due to three causes, all indicative of returning prosperity, viz., increased speculation in securities, due to confidence that the future has larger earnings in store; money to move the crops resulting from abundant harvests; and increased money needed by manufacturers and merchants, because they are called upon to finance an increased and increasing volume of business. Furthermore, the stream of investment which has been checked during the past two years, appears to be breaking over the barriers of distrust, and to be starting afresh upon the undertaking of new projects and the extension or development of old ones.

Previous business depressions have generally been local. The depression which followed the Baring failure of 1893, was the first which seemed to affect all countries alike. The increase in commerce between the countries, and the constant interchange of intelligence, have caused business depressions to be more widespread in their effects. Perhaps Canada, South America and Australia are less affected by business conditions in America than are other countries, but the United States has grown to be so great a factor in the world's commerce, that depression here affects both Europe and Asia, and to some degree the commercial world. Therefore, as the lessening of demand was general, so the consequent business depression affected all manufacturing countries, Germany, England and France sharing, though perhaps to a less degree, the depression existing in America.

International competition in railway materials has constantly strengthened during recent years. This is due to the consolidation of groups of works respectively in the United States and in England, and to the strong government support which has been given to German manufacturers. German diplomacy constitutes a powerful sales organization for German manufacturers. In consequence thereof, German competition has become an important factor in South America, and to some extent throughout the British

colonies. The English government and English boards of control, whilst nominally adhering to the free trade principles of Cobden, have met German trade aggression by adopting the principle that British money must be expended to support British industry. Therefore, there has been an increasing reluctance on the part of English buyers, whether governmental or private, to admit foreigners of any nationality to competition for British contracts for railway material whether for use at home or abroad. The growth of a national consciousness in other countries, as for instance, Norway, Italy, and Australia, has led to the fostering of home manufactures to such an extent that the purchases of these countries abroad, have been either greatly reduced or altogether discontinued. These several causes have combined to increase the difficulty of securing a large foreign trade for American manufacturers, and the keenness of competition has been such as to bring prices to the lowest possible point. Especially has this been true in China, which is the commercial battleground of the world, all nations meeting in competition there upon an equal footing. Nevertheless there is a constantly increasing preference for American locomotives wherever they are once used. Unless kept out by the prejudices of officials educated abroad to prefer other equipment, or unless debarred by foreign financial interests, American locomotives and railway material are not only holding their own, but are creating new markets for themselves.

The present outlook for the future is bright. Not only have the disturbing elements of two years ago disappeared, but all classes of business men look with confidence to the future. At the present time the volume of manufacturing in the line of railway equipment, has increased from about twenty per cent to fifty-five or sixty per cent of the high-water mark of 1907, whilst in other lines of business which did not suffer so heavy a reduction, the percentage is no doubt higher. The volume of railway traffic is in some instances unprecedented, and the average is close to the maximum figures of previous years. The predictions of Mr. James J. Hill are likely to be fully realized, that for many years to come American manufacturers will be fully employed in providing the rails, the cars and the locomotives required for the necessary reconstruction and extension of our railways, to keep pace with the growth of population and the development of the country.